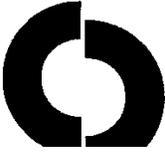


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**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**May 13, 2002**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First National Bank  
Charter Number 16952**

**135 Section Line Road  
Hot Springs, AR 71913**

**Comptroller of the Currency  
F. Christian Dunn, Assistant Deputy Comptroller - Little Rock (Arkansas)  
10201 West Markham, Suite 105 Ozark National Life Bld.  
Little Rock, AR 72205**

**NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

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## INSTITUTION'S CRA RATING

**This institution is rated Satisfactory.**

- ◆ The average loan-to-deposit ratio at 86% is more than reasonable given the bank's size, financial condition, and assessment area credit needs.
- ◆ A substantial majority of loans are in the bank's assessment area.
- ◆ The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- ◆ The geographic distribution of loans reflects reasonable dispersion throughout the assessment area including moderate-income areas.

## DESCRIPTION OF INSTITUTION

First National Bank, Hot Springs, is located in Hot Springs, Arkansas, in Garland County. The bank has eight branches and five automated teller machines (ATM's). The bank was formerly Caddo First National Bank, Glenwood, Arkansas. The main office was moved to Hot Springs from Glenwood in 1999. The bank has two branches in Hot Springs, two branches in Glenwood (32 mile southwest), and a branch each in Hot Springs Village (15 miles north), Mountain Pine (17 miles northwest), Murfreesboro (56 miles southwest) and Royal (11 miles northeast of Hot Springs). The Hot Springs, Hot Springs Village, Mountain Pine and Royal branches have opened since the last CRA examination. No branches have been closed since the previous CRA examination. There are ATM's at the main office, in both Hot Springs branches, in Hot Springs Village, and in Glenwood. As of March 31, 2002, the bank reported total assets of \$127 million with \$100 million in deposits and \$96 million in loans (76% of total assets).

The bank's primary business focuses are real estate, forestry/timber and small business lending. The loan portfolio composition as of March 31, 2002, is as follows:

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Commercial Loans	\$15,795	17%
Consumer Loans	\$13,302	14%
Residential Real Estate Loans	\$29,882	31%
Commercial Real Estate Loans	\$36,677	38%
<b>Total</b>	<b>\$95,656</b>	<b>100%</b>

First National Bank, Hot Springs, offers convenient banking hours and has a variety of loan and deposit products to meet the service needs in the assessment area. There are no financial impediments that would limit the bank's ability to help meet the credit needs in its assessment area.

The bank is 100% owned by First Community Banking Corporation, a multi-bank holding

company headquartered in Hot Springs, Arkansas. First Community Banking Corporation and its subsidiaries had total assets of \$314 million as of December 31, 2001. The bank's CRA performance was rated **Satisfactory** at the previous examination as of July 9, 1997.

## **DESCRIPTION OF CLARK, GARLAND, HOT SPRINGS, MONTGOMERY AND PIKE COUNTIES**

First National Bank, Hot Springs assessment area (AA) is Garland County, Montgomery County, Pike County, Block Numbering Area #9537 in Clark County, and Block Numbering Area #207 in Hot Spring County. The five counties are contiguous. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low and moderate-income geographies. The assessment area is located in the south central part of the state, and the five counties have a population of about 163,000 people according to the 2000 census data. Based on the Median Family Income (MFI) for 1990 of \$24,452, seven (26%) of the 27 Block Numbering Area's (BNA's) in the assessment area are considered upper-income, 15 (56%) are middle-income, and five (18%) are moderate-income. There are no low-income BNA's in the assessment area. Approximately two-thirds of the population in the assessment area lives in Garland County. The principal cities are Hot Springs (Garland County) with a population of 35,759, Glenwood (Pike County) with a population of 1,751, and Murfreesboro (Pike County) with a population of 1,764. Hot Springs Village (Garland County), unincorporated but a planned retirement community, has an estimated population of about 15,000 people.

The economy of the area is considered to be in a stable mode. Primary industries are tourism, health services and forestry/timber. Tourism accounts for about 30% of Garland County's economy. Hot Springs National Park is located in Hot Springs. Almost 25% of Garland County's population is over 65 years old. The unemployment rate for Garland County as of March 2002 was 5.0%, with Montgomery County at 5.4% and Pike County at 7.2%. The unemployment rate for Garland County is slightly below and the unemployment rates for Montgomery and Pike Counties are above the Arkansas average of 5.2% and the U.S. average of 5.7% as of March 2002. Major employers include Saint Joseph's Regional Health Center, Hot Springs, with 1,450 employees; National Park Medical Center, Lake Catherine, with 700 employees; Oaklawn Park (horse racing track), Hot Springs, with 650 employees; and, Weyerhaeuser Company (timber and paper products), Mountain Pine, with 600 employees.

The following table shows the demographic and economic characteristic of the assessment area.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<i>Population</i>	
Number of Families	29,055
Number of Households	40,600
<i>Geographies</i>	
Number of Census Tracts/BNA	27
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	18%
% Middle-Income Census Tracts/BNA	56%
% Upper-Income Census Tracts/BNA	26%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$24,452
2001 HUD-Adjusted MFI	\$33,800
<i>Economic Indicators</i>	
Unemployment Rate	5.0%
Median Housing Value	\$47,674
Median Year Built	1969
% of Households Below Poverty Level	20%

A community contact with the Economic Development Director for Garland County, AR, was conducted in conjunction with this CRA examination. This contact revealed that there are no unmet credit needs in the area. The director's opinion is that all of the banks with branches in the city are willing to make loans to credit-worthy borrowers.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

First National Bank loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's primary and similarly situated competitors are the banks that are headquartered in the assessment area. These banks are the First National Bank, Hot Springs; Alliance Bank, Hot Springs; Arkansas Diamond Bank, Glenwood; First National Bank, Mount Ida; and Diamond State Bank, Murfreesboro.

The following table shows total assets as of December 31, 2001, and the average loan-to-deposit ratio from December 31, 1997 through December 31, 2001 (17 quarters), for these banks.

<b>Institution</b>	<b>Assets (in million) as of 12/31/2001)</b>	<b>Average LTD Ratio</b>
First National Bank, Hot Springs, AR	\$119	86%
Alliance Bank, Hot Springs, AR	\$101	69%
Arkansas Diamond Bank (formerly Bank of Glenwood), Glenwood, AR	\$100	75%
First National Bank, Mount Ida, AR (formerly First Bank of Montgomery County)	\$ 78	75%
Diamond State Bank, Murfreesboro, AR	\$157	73%

First National Bank, Hot Springs, has the highest average loan-to-deposit ratio of the banks that are headquartered in the assessment area by 11%-17%. In addition, in seven of the last eight quarters, the loan-to-deposit ratios have been over 90%.

### **Lending in Assessment Area**

A substantial majority of First National Bank's loans are within the bank's assessment area. A sample of 30 consumer loans, 30 residential real estate loans, and 30 commercial and agriculture loans made from January 1, 2001 to April 30, 2002 was reviewed to evaluate lending within the assessment area. Lending within the assessment area is detailed in the following table.

<b>TOTAL LOANS REVIEWED</b>								
	<b>IN ASSESSMENT AREA</b>				<b>OUT OF ASSESSMENT AREA</b>			
<b>LOAN TYPE</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Consumer	26	87%	\$ 189	79%	4	13%	\$ 49	21%
Residential	26	87%	\$1,350	79%	4	13%	\$ 356	21%
Commercial	27	90%	\$3,543	82%	3	10%	\$ 765	18%
Total Reviewed	79	88%	\$5,082	81%	11	12%	\$1,170	19%

The holding company's internal auditor recently conducted an analysis of the loan portfolio to determine the in/out ratio. The results were similar to the sample. Based on this analysis, approximately 88% of the loans by number, and 84% by dollar volume of all loans made from January 1, 2000 to March 31, 2002, were made within the assessment area.

### **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

The same sample of loans used to evaluate lending within the assessment area was analyzed to determine the distribution of loans to borrowers of different income levels and businesses of different sizes. Given the demographics of the assessment area, the sample reflects reasonable penetration among individuals of different income levels (including low-and moderate-income) and businesses of different sizes.

The following tables show the distribution of residential real estate and consumer loans within the various income levels.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	18%		17%		21%		44%	
LOANS BY YEAR	% of Number	% of Amount						
2001/2002	0%	0%	8%	3%	15%	13%	77%	84%

Based on the sample, most of the residential real estate loans were made to upper-income borrowers. There were few residential real estate loans made to moderate-income borrowers and none to low-income borrowers. During the examination, the internal auditor performed an analysis of all residential real estate loans made since January 1, 2000 and found that 2% by number and 1% by dollar volume were made to low-income borrowers.

The demographics of the assessment area may explain the small volume of loans to low-income and moderate-income borrowers. About 20% of the population is retired, 40% receives some form of Social Security assistance, and 7% receives public assistance. Most of these people do not borrow and most would probably fall into the low and moderate-income categories. However, the bank has also not developed loan products or programs that are specifically targeted for low-income and moderate-income borrowers.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	23%		16%		16%		45%	
LOANS BY YEAR	% of Number	% of Amount						
2001/2002	0%	0%	19%	20%	31%	20%	50%	60%

Based on the sample, the bank is doing a good job of making consumer loans to moderate-income borrowers with both the number and dollar volume above the population of moderate-income borrowers in the assessment area. However, the sample did not reveal consumer loans made to low-income borrowers. During the examination, the internal auditor made an analysis of all automobile loans made from January 1, 2000 to the examination date. The analysis disclosed that 7% by number and 4% by dollar of the automobile loans were made to low-income borrowers. As noted with real estate lending above, the demographics of the assessment area may explain the small volume of loans to low-income borrowers.

The sample of 30 business loans made during 2001 and 2002 was reviewed to determine lending to businesses of various sizes. Based on the sample, the bank is doing a satisfactory job of making loans to small businesses and small farms especially by number of loans. Although the number of businesses with revenues over \$1 million was relatively small, these businesses borrow relatively large amounts of money. The following table shows lending to small businesses and small farms.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES AND FARMS		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	94%	6%
% of Bank Loans in AA #	81%	19%
% of Bank Loans in AA \$	55%	45%

### Geographic Distribution of Loans

The geographic distribution of loans shows a reasonable dispersion throughout the assessment area. The sample that was used to determine lending to borrowers of different income levels and businesses of different sizes was also used to determine the geographic distribution. The geographic distribution of residential real estate loans is detailed in the following table.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied <sup>4</sup>	N/A		13%		49%		35%	
LOANS BY YEAR	% of Number	% of Amount						
2001/2002			12%	13%	69%	52%	19%	35%

The bank is doing a good job of making residential real estate loans in moderate-income areas. The volume of residential loans is similar to the number of moderate-income BNA's in the assessment area. There are no low-income BNA's in the assessment area. Consumer loans made to moderate-income areas are slightly below the number of moderate-

income BNA's in the assessment area. The geographic distribution of consumer loans is detailed in the following table.

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households <sup>5</sup>	N/A		17%		47%		36%	
LOANS BY YEAR	% of Number	% of Amount						
2001/2002			12%	9%	77%	77%	11%	14%

The geographic distribution of business loans is detailed in the following table. The bank is doing a good job of making loans to businesses located in moderate-income geographies. Business and commercial loans made in moderate-income geographies are above the number of moderate-income BNA's in the assessment area.

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses <sup>6</sup>	N/A		21%		48%		31%	
LOANS BY YEAR	% of Number	% of Amount						
2001/2002			33%	23%	56%	55%	11%	22%

### Responses to Complaints

First National Bank, Hot Springs, AR, has not received a formal CRA complaint since the previous examination.

### Fair Lending Review

An analysis of public comments and consumer complaint information was performed according to the OCC's risk-based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest fair lending examination was performed in September 2000.